

**REPORT OF THE AUDIT OF THE
BULLITT COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period
April 16, 2014 Through April 15, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT OF THE
BULLITT COUNTY
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period
April 16, 2014 Through April 15, 2015

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the Bullitt County Sheriff for the period April 16, 2014 through April 15, 2015. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected 2014 taxes of \$60,159,070 for the districts, retaining commissions of \$1,706,065 to operate the Sheriff's office. The Sheriff distributed 2014 taxes of \$58,311,816 to the districts. Taxes of \$16,198 are due to the districts from the Sheriff and refunds of \$19,534 are due to the Sheriff from the taxing districts.

Report Comment:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements

Deposits:

The Sheriff's deposits as of November 4, 2014 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$21,590,365

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Melanie Roberts, Bullitt County Judge/Executive
Honorable David Greenwell, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Bullitt County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through April 15, 2015 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky
Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Melanie Roberts, Bullitt County Judge/Executive
Honorable David Greenwell, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of April 15, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2014 through April 15, 2015 of the Bullitt County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2015 on our consideration of the Bullitt County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Bullitt County Sheriff's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bullitt County Sheriff's internal control over financial reporting and compliance.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Melanie Roberts, Bullitt County Judge/Executive

Honorable David Greenwell, Bullitt County Sheriff

Members of the Bullitt County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal stroke extending to the right.

Mike Harmon

Auditor of Public Accounts

November 23, 2015

BULLITT COUNTY
DAVID GREENWELL, SHERIFF
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period April 16, 2014 Through April 15, 2015

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 4,448,083	\$ 9,662,618	\$ 29,746,554	\$ 5,656,348
Tangible Personal Property	501,038	4,504,496	2,658,102	1,405,188
Fire Protection	526			
Increases Through Exonerations	9,461	54,924	63,121	11,943
Franchise Taxes	154,015	239,879	852,851	
Distilled Spirits Taxes	272,365	492,143	1,445,110	
Additional Billings	1,828	3,793	11,847	2,994
In Lieu of Taxes	11,126	16,858	267,751	
Limestone, Sand and Gravel Reserves	719	2,173	4,808	914
Clay Property	97	205	649	123
Bank Franchises	157,837			
Penalties	15,035	55,343	96,385	17,969
Adjusted to Sheriff's Receipt	(26)	(29)	(145)	(79)
Gross Chargeable to Sheriff	<u>5,572,104</u>	<u>15,032,403</u>	<u>35,147,033</u>	<u>7,095,400</u>
<u>Credits</u>				
Exonerations	36,819	732,633	210,405	26,556
Discounts	94,986	243,157	595,124	124,447
Delinquents:				
Real Estate	55,298	119,217	369,802	70,274
Tangible Personal Property	793	1,430	4,205	2,472
Franchise Taxes	<u>35</u>	<u>31</u>	<u>186</u>	
Total Credits	<u>187,931</u>	<u>1,096,468</u>	<u>1,179,722</u>	<u>223,749</u>
Taxes Collected	5,384,173	13,935,935	33,967,311	6,871,651
Less: Commissions *	<u>228,827</u>	<u>437,912</u>	<u>747,281</u>	<u>292,045</u>
Taxes Due	5,155,346	13,498,023	33,220,030	6,579,606
Taxes Paid	5,141,450	13,451,993	33,156,159	6,562,214
Refunds (Prior Year)	<u>9,158</u>	<u>64,240</u>	<u>55,177</u>	<u>15,950</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 4,738</u>	<u>\$ (18,210)</u>	<u>\$ 8,694</u>	<u>\$ 1,442</u>

**

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

BULLITT COUNTY
 DAVID GREENWELL, SHERIFF
 SHERIFF'S SETTLEMENT - 2014 TAXES
 For The Period April 16, 2014 Through April 15, 2015
 (Continued)

* Commissions:

4.25% on \$21,442,051
 2.2% on \$33,967,311
 1% on \$ 4,749,708

** Special Taxing Districts:

Library District	\$ 373
Health District	(9,872)
Extension District	(9,169)
Nichols Fire District	39
Southeast Bullitt Fire District	(493)
Mt. Washington Fire District	356
Zoneton Fire District	541
City of Shepherdsville	<u>15</u>

Due Districts or (Refunds Due Sheriff)	<u>\$ (18,210)</u>
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BULLITT COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2015

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Bullitt County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BULLITT COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2015
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 4, 2014, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$21,590,365

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 24, 2014 through April 15, 2015.

Note 4. Interest Income

The Bullitt County Sheriff earned \$5,140 as interest income on 2014 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Bullitt County Sheriff collected \$122,261 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The Sheriff's escrowed amounts were as follows:

2011	\$ 2,724
2012	\$ 98
2014	\$ 2,360

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Melanie Roberts, Bullitt County Judge/Executive
Honorable David Greenwell, Bullitt County Sheriff
Members of the Bullitt County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Bullitt County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through April 15, 2015 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated November 23, 2015. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Bullitt County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Bullitt County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bullitt County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2014-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bullitt County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Sheriff's Response to Finding

The Bullitt County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. The Sheriff's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

November 23, 2015

COMMENT AND RECOMMENDATION

BULLITT COUNTY
DAVID GREENWELL, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2014 Through April 15, 2015

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-001 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Disbursements

The Sheriff's office lacks adequate segregation of duties over disbursements. These deficiencies are present because one employee's duties include accepting tax payments, recording taxes paid, preparing the daily deposit for her cash drawer, reconciling the bank account, preparing monthly tax reports, preparing monthly tax disbursements, and co-signing monthly tax disbursements. Lack of oversight could result in the undetected misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and taxing districts. Proper segregation of duties over disbursements is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

We recommend the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should require an employee that does not accept tax payments to prepare the bank reconciliation. The Sheriff should compare the bank reconciliation to the balance in the checkbook and any differences should be reconciled. The Sheriff should document his oversight by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should compare total tax collections per the monthly reports to the total of the monthly disbursement checks. Any discrepancies should be resolved and the review should be documented by initialing and dating the monthly reports.

Sheriff's Response: Our budget does not support additional staff.

Auditor's Reply: Our recommendations would not require additional staff but would require direct oversight from the Sheriff.

